

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE- Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
APPALOOSA WATER COMPANY FOR
APPROVAL OF A FINANCING
APPLICATION

DOCKET NO. W-03443A-10-0143

IN THE MATTER OF THE APPLICATION OF
APPALOOSA WATER COMPANY FOR
APPROVAL OF A RATE INCREASE

DOCKET NO. W-03443A-11-0040

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony
of Jeffrey Michlik and Jian Liu on behalf of the Utilities Division in the above docket.

RESPECTFULLY SUBMITTED this 17th day of April 2012.

Kimberly A. Ruht
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
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Arizona Corporation Commission

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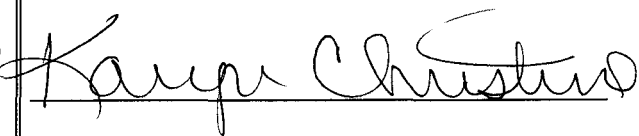
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BEFORE THE ARIZONA CORPORATION COMMISSION

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SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 17, 2012

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**EXECUTIVE SUMMARY
APPALOOSA WATER COMPANY
DOCKET NOS. W-03443A-11-0040 AND W-03443A-10-0143**

The Surrebuttal Testimony of Jeffrey M. Michlik addresses the following issues:

1) Arsenic Treatment Plant; 2) Arsenic Replacement Media; 3) Purchase of Computers and Software; 4) Property Taxes; 5) Salary Expense; 6) Elimination of Arsenic Surcharge; 7) Personal Loan; 8) Advances in Aid of Construction; and 9) Financing.

Staff recommends rates that would increase operating revenue by \$25,373, or 18.01 percent, over adjusted test year revenue of \$140,888 to produce operating revenue of \$166,261 resulting in operating income of \$9,602. Staff recommends a \$25,575 original cost rate base and fair value rate base. Due to the Company's small rate base, Staff's recommended revenue requirement is based on a cash flow analysis. Staff further recommends authorizing the Company to obtain a \$160,000 Water Infrastructure Financing Authority of Arizona ("WIFA") loan to acquire and install a 50,000-gallon storage tank and two emergency generators. Staff further recommends allowing the Company to recover debt service and incremental taxes thereon via a surcharge for an amount to be determined by Staff when the Company obtains the WIFA loan and upon subsequent Commission authorization of specific surcharge rates. Staff estimates \$11,870 for the required annual surcharge revenues.

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Jeffrey M. Michlik that filed Direct Testimony in this case?

A. Yes, I am.

II. SUMMARY OF SURREBUTTAL RECOMMENDATION

Q. What are Staff's Surrebuttal revenue and rate base recommendations for Appaloosa Water Company ("Appaloosa" or "Company")?

A. Staff recommends rates that would increase operating revenue by \$25,373, or 18.01 percent, over adjusted test year revenue of \$140,888 to produce operating revenue of \$166,261 resulting in operating income of \$9,602. Staff recommends a \$25,575 original cost rate base and fair value rate base. Due to the Company's small rate base, Staff's recommended revenue requirement is based on a cash flow analysis. Staff further recommends authorizing the Company to obtain a \$160,000 Water Infrastructure Finance Authority of Arizona ("WIFA") loan to acquire and install a 50,000-gallon storage tank and two emergency generators. Staff further recommends allowing the Company to recover debt service and incremental taxes thereon via a surcharge for an amount to be determined by Staff when the Company obtains the WIFA loan and upon subsequent Commission authorization of specific surcharge rates. Staff estimates \$11,870 for the required annual surcharge revenues.

III. RESPONSES TO INTERVENOR AND COMPANY TESTIMONY

Arsenic Treatment Plant

Q. Have you reviewed the direct testimony of Mr. John E. Blann, Jr. (intervenor and residential customer of Appaloosa) filed on March 22, 2012, and the rebuttal testimony of Joe Cordovana (president of Appaloosa), filed on March 26, 2012?

A. Yes.

Q. Specifically, did you review Mr. Blann's enclosure 4, page 1 of 8?

A. Yes. Mr. Blann asserts that, of the Company's claimed \$200,521 in expenditures for the Arsenic Treatment Facility ("ATF"), only \$175,375 of those cost are directly related to the ATF. The difference is comprised of \$6,996 in pre-construction cost for a new storage tank and \$18,105 in late fee charges.

Q. Does Staff agree with Mr. Blann's assessment?

A. Yes. Due to the Company's use of loan funds for other than construction of the ATF, the Company is also out of compliance with Decision No. 71236, which states "that Appaloosa Water Company is hereby authorized to obtain a 20-year amortizing loan through the Water Infrastructure Finance Authority of Arizona for an amount not to exceed \$200,000, to finance the cost of the arsenic treatment facility as described herein" and "that financing authority granted herein is expressly contingent on Appaloosa Water Company's use of the proceeds to finance the arsenic treatment facility as described herein."¹

¹ Decision No. 71236 (issued Aug. 6, 2009, Docket Nos. W-03443A-08-0177 and -0313) at 19:27-20:5.

1 **Q. Has Staff revised its schedules based on this information?**

2 A. Yes. Staff reduced account no. 320.1 Water Treatment Plant by \$6,996, from \$155,246 to
3 \$148,250, as reflected in Surrebuttal Schedule JMM-5. The amounts in account 320.1
4 Water Treatment Plant, and account 320.3 Water Treatment Equipment now total
5 \$175,375 (i.e., \$148,250 + \$27,125). Staff has also reduced the accumulated depreciation
6 associated with the pre-construction costs for the new storage tank, as reflected in
7 Surrebuttal Schedule JMM-6.

8
9 **Arsenic Replacement Media**

10 **Q. Has Staff provided for the recovery of Arsenic Replacement Media in rates?**

11 A. Yes. Staff has included annual depreciation expense of \$21,700, calculated on total media
12 costs of \$27,125 (\$25,000 for the media and \$2,125 for its installation) and depreciated
13 over fifteen months, as shown in Surrebuttal Schedule JMM-12, line 15. Since the
14 expected useful life of fifteen months exceeds one year, these arsenic replacement media
15 costs are appropriately capitalized instead of expensed according to the National
16 Association of Regulatory Utility Commissioners ("NARUC") Uniform System of
17 Accounts ("USOA").

18
19 **Purchase of Computers and Software**

20 **Q. Please explain Staff's treatment of the Company's computer and software purchase.**

21 A. Consistent with generally accepted accounting principles and the NARUC USOA, assets
22 with expected lives exceeding one year are capitalized instead of expensed. Staff uses a
23 five-year expected life for computers and software. Thus, Staff capitalized the computer
24 and software costs and provided recovery of those costs through annual depreciation
25 expense.
26

1 **Property Taxes**

2 **Q. Did you explain Staff's methodology for calculating property tax expense in your**
3 **direct testimony?**

4 A. Yes. Staff's recommended increase in property tax expense reflects the increase in
5 revenues that Staff recommends in this case on a going-forward basis.
6

7 **Salary Expense**

8 **Q. Did Staff find the Company's proposed salary expense unreasonable, as suggested by**
9 **Mr. Blann?**

10 A. No. Salary expenses vary among utilities depending upon many variables, which include
11 the operational characteristics of the utility and the degree of its reliance on outside
12 services. A comparison of this Company's salary expense to that of other similarly-
13 situated utilities shows that the proposed salary expense in this case does not seem
14 unreasonable.²
15

16 **Elimination of Arsenic Surcharge**

17 **Q. Mr. Cordovana and Mr. Blann have both discussed the over- or under-collection of**
18 **the WIFA arsenic surcharge. Does the over- or under-collection status of the arsenic**
19 **surcharge remain relevant?**

20 A. No. The Commission did not establish a true-up feature in conjunction with the arsenic
21 surcharge. A true-up is appropriate when significant unknowns pertaining to the costs
22 and/or surcharge revenues cause the expectation of a large over- or under-recovery. The
23 purpose of the arsenic surcharge was to provide the Company with a financial bridge from
24 the prior rate case through this rate case by providing additional cash flows. The

² Livco Water Company, Docket No. W-0212A-11-0213, salary expense of \$67,000; Cedar Grove Water, Inc., Docket No. W-20541A-11-0199, salary expense of \$91,455; Baca Float Water Company, Inc., Docket No. WS-01678A-10-0504, salary expense of \$94,000.

1 surcharge performed this function effectively. Once the plant constructed with the loan is
2 included in rate base, as it is in this case, and the Company is recovering the cost of that
3 plant, the surcharge is no longer appropriate. Staff is not aware of any instance in which a
4 surcharge to cover debt service on a loan was continued once the plant financed by the
5 loan has been included in rate base. Accordingly, the arsenic surcharge should be
6 discontinued.

7
8 **Personal Loan**

9 **Q. Does Staff have any comment on Mr. Blann's assertion that the personal loan**
10 **agreement Mr. Cordovana entered into with the Company violates the Internal**
11 **Revenue Code ("IRC"), Chapter 80, General Rules Paragraph 7872, because the**
12 **repayment of the loan does not include interest?**

13 **A.** Yes. Staff notes that any interest income the Company earns on the loan issued to Mr.
14 Cordovana is not a component of operating income, and it does not affect the revenue
15 requirement. In other words, whether Mr. Cordovana is in violation of the IRC is a matter
16 between the Internal Revenue Service and Mr. Cordovana; it is not a ratemaking issue.

17
18 **Q. Please comment on Mr. Blann's allegation that Mr. Cordovana has not made the**
19 **yearly \$300 payments on the personal loan between the Company and himself as**
20 **required by the loan terms.**

21 **A.** Staff notes that the Company's general ledger shows the loan receivable amount at
22 \$141,187, the original loan amount, an indication that the yearly payment has not been
23 paid. Decision No. 71236 (at page 16) required the Company to obtain board approval of
24 the loan, substantiate the loan with a written note and establish a repayment schedule. The
25 Appaloosa board of directors approved the loan on September 1, 2009, and the Company
26 docketed a copy of the note on September 9, 2009. The loan provides for annual \$300

1 payments beginning January 1, 2010, and each January 1 thereafter for 30 years, with the
2 \$132,186 balance due at the end of the 30-year term. The Company should take
3 appropriate action to collect the delinquent payments from Mr. Cordovana to preserve the
4 Company's assets. However, Staff notes that collection of the loan repayments would not
5 necessarily result in additional funds available for utility operations. For example, with
6 approval of the board of directors, the Company could distribute the amount of the loan
7 repayments as dividends to shareholders, including Mr. Cordovana, with essentially the
8 same cash flow result as if Mr. Cordovana had not made the loan payment. The Company
9 has not recorded any such transactions and the Company should accurately record any
10 transactions that occur.

11
12 **Q. Did Staff also note any other loans when examining the general ledger?**

13 A. Yes. Staff noted that there is a \$67,200 employee advance and a \$648 loan receivable
14 from Artesian Holdings, LLC³. Staff recommends requiring the Company to obtain
15 Commission approval before making cash advances or loans to any parties. Issuing loans
16 reduces the internally-generated cash available for operating expenses, capital
17 improvements and debt service. The Company should not be collecting surcharge revenue
18 that would not have been necessary had the Company retained loaned funds. The
19 Company is in the water utility business, not the lending business. Thus, Mr. Blann
20 correctly notes that, if Mr. Cordovana had not withdrawn money from the Company, those
21 amounts would be available for capital improvements. While distributing a portion of
22 earnings as dividends is a normal practice, it is inappropriate for the Company to issue
23 loans and make other non-utility uses of funds when a rate base/rate of return revenue
24 requirement does not provide sufficient cash flow to service its debt or its capital structure
25 is heavily debt-leveraged as is the circumstance in this case.

³ Joe Cordovana is also a member/manager of Artesian Holdings, LLC.

Advances in Aid of Construction ("AIAC")

Q. Please comment on Mr. Blann's statement that there are outstanding AIAC refunds due to customers.

A. Staff agrees with Mr. Blann that Mr. Cordovana should make the necessary AIAC refunds.

Q. What AIAC amount did Staff use?

A. Staff used the amount of \$570,327 that was approved in the prior rate case, and included in the Company's 2010 annual report and the Company's rate application.

Q. Did Staff, through a data request, ask the Company if it refunded any AIAC during the test year?

A. Yes. The Company responded that it did not understand Staff's question. However, the Company stated that no AIAC had been converted to CIAC. In a follow-up discussion with GayLynn Brightday, the Company's accountant, Staff determined that the actual AIAC balance is \$535,553, not \$570,327, and that the Company refunds approximately \$7,000 in AIAC per year.

Q. Has Staff corrected its schedules to reflect this new information?

A. Yes. Please see Staff Surrebuttal Schedule JMM-7 and JMM-15.

Financing

Q. Does Staff have a correction to its financing recommendations?

A. Yes. Staff's direct testimony recommended authorization to incur an 18- to 22- year amortizing loan in an amount not to exceed \$60,000 at an interest rate not to exceed that which is available from WIFA for the purpose of acquiring an emergency generator with

1 sufficient capacity to run the Company's high-yield well. Staff recommended denial of
2 the remainder of the Company's \$855,193 request for authorization to borrow funds. For
3 clarification, Staff's recommendation is for two generators, not a single generator.
4

5 **Q. Did Staff update its financial analysis of the proposed financing to recognize its**
6 **Surrebuttal position?**

7 A. Yes. Staff's financial analysis is shown in Surrebuttal Schedules JMM-15 and JMM-16.
8 Surrebuttal Schedule JMM-16, Column [A], presents pro forma financial information
9 reflecting Staff's audit results and recommended rates with existing loans. Surrebuttal
10 Schedule JMM-16, Column [B], presents pro forma financial information that modifies
11 Column [A] to reflect issuance of a \$160,000, 20-year amortizing loan at 3.675 percent
12 per annum and \$11,870 in surcharge revenues. Surrebuttal Schedule JMM-16 also shows
13 the debt service coverage ratio ("DSC").
14

15 DSC represents the number of times internally generated cash (i.e., earnings before
16 interest, income tax, depreciation and amortization expenses) covers required principle
17 and interest payments on short-term and long-term debt. A DSC greater than 1.0 means
18 operating cash flow is sufficient to cover debt obligations.
19

20 Schedule JMM-16, Column [B] shows that a pro forma 2.30 DSC results from Staff's
21 recommended revenue requirement, including surcharge revenue, and a fully drawn
22 \$160,000 20-year amortizing loan at 3.675 percent annual interest. The pro forma DSC
23 shows that the Company will have adequate cash flows to meet all obligations including
24 the anticipated new debt.
25

1 Surrebuttal Schedule JMM-15 presents cash flow analyses with and without the \$160,000
2 loan. The cash flow analysis reflecting issuance of a \$160,000 loan shows that Staff's
3 recommended revenues would provide positive, uncommitted cash flow available for
4 contingencies of \$17,924.

5
6 Accordingly, Staff concludes that issuance of debt financing not to exceed \$160,000 in the
7 form of an amortizing loan of approximately 20 years for a 50,000-gallon storage tank and
8 two emergency generators is within the Company's corporate powers, is compatible with
9 the public interest, will not impair its ability to provide services and is consistent with
10 sound financial practices provided the rates authorized in this proceeding provide a 1.25 or
11 greater DSC.⁴ The remainder of the Company's request for borrowing authorization
12 should be denied.

13
14 **Q. What is Staff's revised recommendation?**

15 A. Staff recommends authorization to incur an 18- to 22-year amortizing loan in an amount
16 not to exceed \$160,000 at an interest rate not to exceed that which is available from WIFA
17 for the purpose of acquiring a 50,000-gallon storage tank and two emergency generators
18 with sufficient capacity to run the Company's two wells to meet fire-flow requirements.⁵
19 Staff recommends denial of the remainder of the Company's request for authorization to
20 borrow funds.

21

⁴ Staff generally considers 1.25 as the minimum DSC for a WIFA loan due to debt service reserve funding requirements.

⁵ Staff originally calculated its fire-flow requirement based on a standard ADEQ fire-flow measure of 500 gallons per minute for two hours. The Chino Valley Fire District fire-flow requirement is 1000 gallons per minute for two hours with a 20 PSI residual. To accommodate the Chino Valley Fire District fire-flow requirement, Staff has changed its recommendation to include an additional 50,000 gallon storage tank to meet the fire-flow requirement.

1 **Q. Does Staff now recommend an infrastructure surcharge to fund the WIFA loan?**

2 A. Yes. Staff did not recommend an infrastructure surcharge to fund the emergency
3 generators in its direct testimony; however, with the additional \$100,000 loan amount for
4 the storage tank and in recognition of AIAC refunding and tax obligations recognized in
5 Surrebuttal, Staff concludes that an infrastructure surcharge is needed to provide adequate
6 cash flow for contingencies. Just as the arsenic surcharge should be eliminated in this
7 case, any infrastructure surcharge established in this case should be eliminated in a future
8 rate case as the plant improvements are recognized in rate base.

9
10 **Q. Does Staff recommend that the WIFA infrastructure surcharge include a component**
11 **for the debt service reserve fund?**

12 A. No. Staff's recommended surcharge includes principal, interest on the WIFA loan and
13 incremental income and property taxes due to the surcharge revenue. Staff's cash flow
14 analysis shows that, with Staff's recommended surcharge, the Company would generate
15 sufficient cash flow to meet all obligations including the WIFA debt service reserve fund.
16 (See Surrebuttal Schedule JMM-15). Accordingly, Staff does not recommend including a
17 provision for the debt service reserve fund in the surcharge.

18
19 **Q. How does the infrastructure surcharge work?**

20 A. The surcharge mechanism establishes the methodology for calculating the surcharge
21 amounts to be applied to the rates established in this rate application. Once the Company
22 has closed on the WIFA loan, it would submit an application in this Docket requesting
23 implementation of the infrastructure surcharge. Staff would then calculate the appropriate
24 surcharge, and prepare and file a recommended order for Commission consideration.

25

1 **Q. Does Staff have any additional recommendations regarding the infrastructure**
2 **surcharge?**

3 **A. Yes. Staff recommends the following:**

4
5 1. That the Company file as a compliance item in this Docket, within 30 days of the
6 execution of any financing transaction authorization herein, a notice confirming that
7 such execution has occurred and a certification by an authorized Company
8 representative that the terms of the financing fully comply with the authorizations
9 granted.

10
11 2. That the Company provide to Staff, a copy of any WIFA loan documents executed
12 pursuant to the authorizations granted herein, within 30 days of the execution of the
13 loan, and file a letter in Docket Control that the WIFA documents have been provided
14 to Staff.

15
16 3. That upon filing of the loan closing notice and the provision of the loan documents to
17 Staff, the Company may file in this Docket an application requesting implementation of
18 the associated surcharge.

19
20 4. That within 60 days of the filing of a surcharge implementation request, Staff shall
21 calculate the appropriate WIFA surcharge and prepare and file a recommended order
22 for Commission consideration. The surcharge should be calculated based on the actual
23 loan debt service (interest and principal) payments and using the current customer
24 count at the time of the loan closing.
25

1 5. As a compliance item in this Docket, that the Company establish a separate interest-
2 bearing account, and in the month following authorization of the infrastructure
3 surcharge, deposit each month into the account an amount equal to the debt service
4 (principal and interest) on the new WIFA loan.⁶ Monies from this account shall be
5 used solely to repay WIFA.

6
7 6. That the Company file a report on January 30th each year as long as it has a WIFA loan,
8 showing the monthly bank statements for the interest bearing account and the monthly
9 WIFA billing statements, along with the cancelled checks or electric fund transfers
10 from the Company showing that the monthly WIFA loan payments from the previous
11 twelve months have been paid.

12
13 **Q. Has Staff presented an estimate of the infrastructure surcharge impact per customer**
14 **based on a \$160,000, 20 year, 3.675 percent interest WIFA loan?**

15 A. Yes. Surrebuttal Schedule JMM-17 shows estimate of the monthly surcharge for all meter
16 sizes. The surcharge estimate for 5/8 x 3/4-inch meter is \$2.47 per month.

17
18 **Q. Has Staff also calculated the approximate combined impact of Staff's recommended**
19 **increase in base rates and the infrastructure surcharge on the average and median**
20 **usage 5/8 x 3/4-inch meter customers' monthly bills?**

21 A. Yes. Please see Surrebuttal Schedule JMM-20.
22

⁶ As Staff noted in its Direct Testimony (Michlik at 4:6-15), the Company did not follow the order in Decision No.71236 that required all surcharge revenues to be deposited into a separate interest-bearing account. The Company is hereby put on notice that Staff may pursue appropriate sanctions if the Company does not follow Commission orders.

1 **Q. Other than as specifically modified and described in Staff's Surrebuttal, does Staff**
2 **continue to advocate the recommendations made in its direct testimony related to the**
3 **financing?**

4 A. Yes. For example, Staff recommends that the Commission authorize Appaloosa to pledge
5 its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in
6 connection with the WIFA loan.

7
8 **Q. Does your silence on any of the issues, matters or findings addressed in the testimony**
9 **of any of the witnesses for the Company constitute your acceptance of their positions**
10 **on such issues, matters or findings?**

11 A. No. Staff limited its discussion to the specific issues outlined above. Staff's lack of
12 response to any issue in this proceeding should not be construed as agreement with the
13 Company's position in its rebuttal testimony; rather, where there is no response Staff
14 relies on its original Direct Testimony.

15
16 **Q. Does this conclude your Surrebuttal Testimony?**

17 A. Yes, it does.

SURREBUTTAL TESTIMONY OF JEFFREY M. MICHLIK

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Appaloosa Water Company
Docket Nos. W-03443A-11-0040 and W-03443A-10-0143
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-1

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	(A) COMPANY FAIR <u>VALUE</u>	(B) STAFF FAIR <u>VALUE</u>
1	Adjusted Rate Base	\$ (52,705)	\$ 25,575
2	Adjusted Operating Income (Loss)	\$ (37,979)	\$ (10,212)
3	Current Rate of Return (L2 / L1)	N/M	N/M
4	Required Rate of Return	N/M	N/M
5	Proposed/Recommended Operating Income	N/M	\$ 9,602
6	Operating Income Deficiency (L5 - L2)	N/M	\$ 19,814
7	Gross Revenue Conversion Factor	1.0000	1.2806
8	Required Revenue Increase (L7 * L6)	\$ 140,888	\$ 25,373
9	Adjusted Test Year Revenue	\$ 140,888	\$ 140,888
10	Proposed Annual Revenue (L8 + L9)	\$ 281,776	\$ 166,261
11	Required Increase in Revenue (%)	100.00%	18.01%

N/M = Not Meaningful

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-3 and JMM-8

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.9099%			
5	Subtotal (L3 - L4)	78.0901%			
6	Revenue Conversion Factor (L1 / L5)	1.280572			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	20.9228%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.0772%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	13.9548%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		20.9228%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.9228%			
20	One Minus Combined Income Tax Rate (L18-L19)	79.0772%			
21	Property Tax Factor (JMM-13, L27)	1.2483%			
22	Effective Property Tax Factor (L20*L21)		0.9871%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.9099%	
24	Required Operating Income (Schedule JMM-1, Line 5)	\$ 9,602			
25	Adjusted Test Year Operating Income (Loss)	(10,212)			
26	Required Increase in Operating Income (L24 - L25)		\$ 19,814		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 2,541			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(2,702)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		5,243		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	\$ 166,261			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (JMM-13, Col B, L31)	\$ 3,831			
36	Property Tax on Test Year Revenue (JMM-13, Col A, L17)	3,514			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		317		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 25,373		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule JMM-8, Col. [C], Line 6 & Sch. JMM-1, Col. [D] Line 10)	\$ 140,888	\$ 25,373	\$ 166,261	\$ 178,132
40	Operating Expenses Excluding Income Taxes	\$ 153,802		\$ 154,119	\$ 154,267
41	Interest(L56)	\$ -		\$ -	\$ 5,788
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (12,914)		\$ 12,143	\$ 18,077
43	Arizona State Income Tax Rate	6.9680%		6.9680%	6.9680%
44	Arizona Income Tax (L42 x L43)	\$ (900)		\$ 846	\$ 1,260
45	Federal Taxable Income (L42 - L44)	\$ (12,014)		\$ 11,297	\$ 16,818
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (1,802)		\$ 1,695	\$ 1,695
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	\$ -
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	\$ -
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	\$ -
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	\$ -
51	Total Federal Income Tax	\$ (1,802)		\$ 1,695	\$ 1,695
52	Combined Federal and State Income Tax (L44 + L51)	\$ (2,702)		\$ 2,541	\$ 2,954
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			15.0000%	

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Surrebuttal Schedule JMM-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 1,459,170	47,350	1	\$ 1,506,520
2	Less: Accumulated Depreciation	231,234	16,625	2	247,859
3	Net Plant in Service	<u>\$ 1,227,936</u>	<u>\$ 30,725</u>		<u>\$ 1,258,661</u>
<u>LESS:</u>					
4	Contributions in Aid of Construction (CIAC)	\$ 759,327	\$ -		\$ 759,327
5	Less: Accumulated Amortization	<u>49,004</u>	<u>-</u>		<u>\$ 49,004</u>
6	Net CIAC	710,323	-		\$ 710,323
7	Advances in Aid of Construction (AIAC)	570,318	(34,765)		535,553
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
<u>ADD:</u>					
9	Working Capital Allowance	-	12,791	3	12,791
10	Deferred Regulatory Assets	-	-		-
11	Original Cost Rate Base	<u>\$ (52,705)</u>	<u>\$ 78,280</u>		<u>\$ 25,575</u>

References:

Column [A]: Company as Filed

Column [B]: Schedule JMM-4

Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Plant Pro-Forma Adjustment And Reclassification of Plant	[C] ADJ #2 Accumulated Depreciation Expense	[D] ADJ #3 Cash Working Capital	[E] STAFF ADJUSTED
			Ref: Sch JMM-5	Ref: Sch JMM-6	Ref: Sch JMM-7		
1	301.0	Organization Cost	264	-	-	-	264
2	302.0	Franchise Cost	2,309	-	-	-	2,309
3	303.0	Land and Land Rights	3,161	-	-	-	3,161
4	304.0	Structures and Improvements	67,051	-	-	-	67,051
5	305.0	Collecting and Impounding Res.	-	-	-	-	-
6	306.0	Lake River and Other Intakes	-	-	-	-	-
7	307.0	Wells and Springs	238,519	-	-	-	238,519
8	308.0	Infiltration Galleries and Tunnels	-	-	-	-	-
9	309.0	Supply Mains	-	-	-	-	-
10	310.0	Power Generation Equipment	-	-	-	-	-
11	311.0	Electric Pumping Equipment	94,131	-	-	-	94,131
12	320.0	Water Treatment Equipment	-	-	-	-	-
13	320.1	Water Treatment Plant	-	148,250	-	-	148,250
14	320.2	Solution Chemical Feeders	-	-	-	-	-
15	320.3	Media for Arsenic Treatment	-	27,125	-	-	27,125
16	330.0	Distribution Reservoirs & Standpipe	100,438	-	-	-	100,438
17	331.0	Transmission and Distribution Mains	745,102	-	-	-	745,102
18	333.0	Services	-	-	-	-	-
19	334.0	Meters	15,055	-	-	-	15,055
20	335.0	Hydrants	48,876	-	-	-	48,876
21	336.0	Backflow Prevention Devices	-	-	-	-	-
22	339.0	Other Plant and Miscellaneous Equipment	128,025	(128,025)	-	-	-
23	340.0	Office Furniture and Fixtures	1,850	-	-	-	1,850
24	340.1	Computer Equipment	1,500	-	-	-	1,500
25	341.0	Transportation Equipment	-	-	-	-	-
26	342.0	Stores Equipment	-	-	-	-	-
27	343.0	Tools and Work Equipment	-	-	-	-	-
28	344.0	Laboratory Equipment	-	-	-	-	-
29	345.0	Power Operated Equipment	-	-	-	-	-
30	346.0	Communications Equipment	-	-	-	-	-
31	347.0	Miscellaneous Equipment	-	-	-	-	-
32	348.0	Other Tangible Plant	12,889	-	-	-	12,889
33		Total Plant in Service - Actual	1,459,170	47,350	-	-	1,506,520
34		Post Test-Year Plant	-	-	-	-	-
35		Total Plant in Service	\$ 1,459,170	\$ 47,350	\$ -	\$ -	\$ 1,506,520
36		Less: Accumulated Depreciation	231,234	-	16,625	-	247,859
37			-	-	-	-	-
38		Net Plant in Service	\$ 1,227,936	\$ 47,350	\$ (16,625)	\$ -	\$ 1,258,661
39							
40		LESS:					
41		Contributions in Aid of Construction (CIAC)	\$ 759,327	\$ -	\$ -	\$ -	\$ 759,327
42		Less: Accumulated Amortization	49,004	-	-	-	49,004
43		Net CIAC (L25 - L28)	710,323	-	-	-	710,323
44		Advances in Aid of Construction (AIAC)	570,318	-	-	(34,765)	535,553
45		Customer Deposits	-	-	-	-	-
46		Deferred Income Taxes	-	-	-	-	-
47			-	-	-	-	-
48							
49		ADD:					
50		Working Capital Allowance	-	-	-	12,791	12,791
51		Deferred Regulatory Assets	-	-	-	-	-
52							
53		Original Cost Rate Base	\$ (52,706)	\$ 47,350	\$ (16,625)	\$ 47,556	\$ 25,575

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Surrebuttal Schedule JMM-5

RATE BASE ADJUSTMENT NO. 1 - PLANT PRO-FORMA AND RECLASSIFICATION OF PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	339	Other Plant and Miscellaneous Equipment	\$ 128,025	\$ (128,025)	\$ -
2	320.1	Water Treatment Plant	-	148,250	148,250
3	320.3	Water Treatment Equipment	-	27,125	27,125
4			<u>\$ 128,025</u>	<u>\$ 47,350</u>	<u>175,375</u>

REFERENCES:

Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Appaloosa Water Company
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Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Deprecation	\$ 231,234	\$ 16,625	\$ 247,859

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - ADJUSTMENTS TO ADVANCES IN AID OF CONSTRUCTION AND CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Cash Working Capital	\$ -	\$ 12,791	\$ 12,791
2				
3	Advances in aid of construction	\$ 570,318	\$ (34,765)	\$ 535,553

Staff's Calculation of Cash Working Capital

1/24th Purchased Power	\$ 491
1/8th Operation & Maintenance Expense	12,299
Total Cash Working Capital	<u>\$ 12,791</u>

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED	[F] PROPOSED LOAN SURCHARGE	[G] PRO FORMA WITH PROPOSED LOAN
1	REVENUES:							
2	Metered Water Sales	\$ 133,060	\$ -	\$ 133,060	\$ 25,373	\$ 158,433	\$ 11,870	\$ 170,304
3	Forfeited Discounts	-	-	-	-	-	-	-
4	Other Water Revenues	7,828	-	7,828	-	7,828	-	7,828
5	Intentionally Left Blank	-	-	-	-	-	-	-
6	Total Operating Revenues	<u>\$ 140,888</u>	<u>\$ -</u>	<u>\$ 140,888</u>	<u>\$ 25,373</u>	<u>\$ 166,261</u>	<u>\$ 11,870</u>	<u>\$ 178,132</u>
7								
8	OPERATING EXPENSES:							
9	Salaries and Wages	\$ 50,769	\$ -	\$ 50,769	\$ -	\$ 50,769	-	\$ 50,769
10	Salaries and Wages - Officers and Stockholders	-	-	-	-	-	-	-
11	Employee Pensions and Benefits	-	-	-	-	-	-	-
12	Purchased Power	11,788	-	11,788	-	11,788	-	11,788
13	Chemicals	-	-	-	-	-	-	-
14	Repairs and Maintenance	8,139	-	8,139	-	8,139	-	8,139
15	Office Supplies and Expenses	2,956	-	2,956	-	2,956	-	2,956
16	Outside Services	7,363	4,200	11,563	-	11,563	-	11,563
17	Water Testing	9,049	(7,239)	1,810	-	1,810	-	1,810
18	Outside Services - Other	-	-	-	-	-	-	-
19	Rental of Building/Real Property	6,000	-	6,000	-	6,000	-	6,000
20	Transportation Expenses	-	-	-	-	-	-	-
21	Insurance	7,374	-	7,374	-	7,374	-	7,374
22	Rate Case Expense	-	-	-	-	-	-	-
23	Bad Debt Expense	-	-	-	-	-	-	-
24	Miscellaneous Expense	10,828	(1,044)	9,784	-	9,784	-	9,784
25	Depreciation Expense	53,318	(18,771)	34,547	-	34,547	-	34,547
26	Amortization of CIAC	-	-	-	-	-	-	-
27	Taxes Other than Income	5,558	-	5,558	-	5,558	-	5,558
28	Property Taxes	5,724	(2,210)	3,514	317	3,831	148	3,979
29	Income Taxes	-	(2,702)	(2,702)	5,243	2,541	414	2,954
30	Deferred Income Taxes	-	-	-	-	-	-	-
31	Intentionally Left Blank	-	-	-	-	-	-	-
32	Intentionally Left Blank	-	-	-	-	-	-	-
33	Intentionally Left Blank	-	-	-	-	-	-	-
34	Total Operating Expenses	<u>\$ 178,866</u>	<u>\$ (27,766)</u>	<u>\$ 151,100</u>	<u>\$ 5,559</u>	<u>\$ 156,659</u>	<u>\$ 562</u>	<u>\$ 157,221</u>
35	Operating Income (Loss)	<u>\$ (37,979)</u>	<u>\$ 27,766</u>	<u>\$ (10,212)</u>	<u>\$ 19,814</u>	<u>\$ 9,602</u>	<u>\$ 11,309</u>	<u>\$ 20,911</u>

References:

Column (A): Company Schedule C-1
Column (B): Schedule JMM-9
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-13 and JMM-14
Column (E): Column (C) + Column (D)
Column (F): Schedule JMM-13, JMM-14, AND JMM-16

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Water Testing Expense ADJ #1 Ref: Sch JMM-10	[C] Miscellaneous Expense ADJ #2 Ref: Sch JMM-11	[D] Depreciation Expense ADJ #3 Ref: Sch JMM-12	[E] Property Tax Expense ADJ #4 Ref: Sch JMM-13	[F] Income Tax Expense ADJ #5 Ref: Sch JMM-14	[G] STAFF ADJUSTED
1		REVENUES:							
2	461	Metered Water Sales	\$ 133,060	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,060
3	470	Forfeited Discounts	-	-	-	-	-	-	-
4	474	Other Water Revenues	7,828	-	-	-	-	-	7,828
5		Intentionally Left Blank	-	-	-	-	-	-	-
6		Total Operating Revenues	\$ 140,888	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 140,888
7									
8		OPERATING EXPENSES:							
9	601	Salaries and Wages	\$ 50,769	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,769
10	603	Salaries and Wages - Officers and Stockholders	-	-	-	-	-	-	-
11	604	Employee Pensions and Benefits	-	-	-	-	-	-	-
12	615	Purchased Power	11,788	-	-	-	-	-	11,788
13	618	Chemicals	-	-	-	-	-	-	-
14	620	Repairs and Maintenance	8,139	-	-	-	-	-	8,139
15	621	Office Supplies and Expenses	2,956	-	-	-	-	-	2,956
16	630	Outside Services	7,363	4,200	-	-	-	-	11,563
17	635	Water Testing	9,049	(7,239)	-	-	-	-	1,810
18	636	Outside Services - Other	-	-	-	-	-	-	-
19	641	Rental of Building/Real Property	6,000	-	-	-	-	-	6,000
20	650	Transportation Expenses	-	-	-	-	-	-	-
21	657	Insurance	7,374	-	-	-	-	-	7,374
22	666	Rate Case Expense	-	-	-	-	-	-	-
23	670	Bad Debt Expense	-	-	-	-	-	-	-
24	675	Miscellaneous Expense	10,828	-	(1,044)	-	-	-	9,784
25	403	Depreciation Expense	53,318	-	-	(18,771)	-	-	34,547
26	407	Amortization of CIAC	-	-	-	-	-	-	-
27	408	Taxes Other than Income	5,558	-	-	-	(2,210)	-	5,558
28	408.11	Property Taxes	5,724	-	-	-	-	(2,702)	3,514
29	409	Income Taxes	-	-	-	-	-	-	-
30	410	Deferred Income Taxes	-	-	-	-	-	-	-
31		Intentionally Left Blank	-	-	-	-	-	-	-
32		Intentionally Left Blank	-	-	-	-	-	-	-
33		Intentionally Left Blank	-	-	-	-	-	-	-
34		Total Operating Expenses	\$ 178,866	(3,039)	(1,044)	(18,771)	(2,210)	(2,702)	\$ 151,100
35		Operating Income (Loss)	\$ (37,979)	\$ 3,039	\$ 1,044	\$ 18,771	\$ 2,210	\$ 2,702	\$ (10,212)

Appaloosa Water Company

Surrebuttal Schedule JMM-10

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Test Year ended December 31, 2010

OPERATING INCOME ADJUSTMENT NO. 1 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Water Testing Expense	\$ 9,049	\$ (7,239)	\$ 1,810
2	Outside Service	7,363	4,200	11,563
3	Total	\$ 16,412	\$ (3,039)	\$ 13,373

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

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Surrebuttal Schedule JMM-11

OPERATING INCOME ADJUSTMENT NO. 2 - MISCELLANEOUS EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Miscellaneous Expense	\$ 10,828	\$ (1,044)	\$ 9,784

Staff's disallowed items

Homeward Bound Donation

\$ 500

Meals and Entertainment

544

\$ 1,044

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 3 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 264	\$ -	\$ 264	0.00%	\$ -
2	302	Franchise Cost	\$ 2,309	\$ -	\$ 2,309	0.00%	\$ -
3	303	Land and Land Rights	\$ 3,161	\$ -	\$ 3,161	0.00%	\$ -
4	304	Structures and Improvements	\$ 67,051	\$ -	\$ 67,051	3.33%	\$ 2,233
5	305	Collecting and Impounding Res.	\$ -	\$ -	\$ -	2.50%	\$ -
6	306	Lake River and Other Intakes	\$ -	\$ -	\$ -	2.50%	\$ -
7	307	Wells and Springs	\$ 238,519	\$ -	\$ 238,519	3.33%	\$ 7,943
8	308	Infiltration Galleries and Tunnels	\$ -	\$ -	\$ -	6.67%	\$ -
9	309	Supply Mains	\$ -	\$ -	\$ -	2.00%	\$ -
10	310	Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
11	311	Electric Pumping Equipment	\$ 94,131	\$ -	\$ 94,131	12.50%	\$ 11,766
12	320	Water Treatment Equipment	\$ -	\$ -	\$ -	3.33%	\$ -
13	320.1	Water Treatment Plant	\$ 148,250	\$ -	\$ 148,250	3.33%	\$ 4,937
14	320.2	Solution Chemical Feeder	\$ -	\$ -	\$ -	20.00%	\$ -
15	320.3	Media for Arsenic Treatment	\$ 27,125	\$ -	\$ 27,125	80.00%	\$ 21,700
16	330	Distribution Reservoirs & Standpipe	\$ 100,438	\$ -	\$ 100,438	2.22%	\$ 2,230
17	331	Transmission and Distribution Mains	\$ 745,102	\$ -	\$ 745,102	2.00%	\$ 14,902
18	333	Services	\$ -	\$ -	\$ -	3.33%	\$ -
19	334	Meters	\$ 15,055	\$ -	\$ 15,055	8.33%	\$ 1,254
20	335	Hydrants	\$ 48,876	\$ -	\$ 48,876	2.00%	\$ 978
21	336	Backflow Prevention Devices	\$ -	\$ -	\$ -	6.67%	\$ -
22	339	Other Plant and Miscellaneous Equipment	\$ -	\$ -	\$ -	6.67%	\$ -
23	340	Office Furniture and Fixtures	\$ 1,850	\$ -	\$ 1,850	6.67%	\$ 123
24	340.1	Computer Equipment	\$ 1,500	\$ -	\$ 1,500	20.00%	\$ 300
25	341	Transportation Equipment	\$ -	\$ -	\$ -	20.00%	\$ -
26	342	Stores Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
27	343	Tools and Work Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
28	344	Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
29	345	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
30	346	Communications Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
31	347	Miscellaneous Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
32	348	Other Tangible Plant	\$ 12,889	\$ -	\$ 12,889	10.00%	\$ 1,289
33		Total Plant	\$ 1,506,520	\$ -	\$ 1,506,520		\$ 69,654
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.62%				
36		CIAC: \$	759,327				
37		Amortization of CIAC (Line 32 x Line 33): \$	35,108				
38							
39		Depreciation Expense Before Amortization of CIAC: \$	69,654				
40		Less Amortization of CIAC: \$	35,108				
41		Test Year Depreciation Expense - Staff: \$	34,547				
42		Depreciation Expense - Company: \$	53,318				
43		Staff's Total Adjustment: \$	(18,771)				

References:

Column [A]: Schedule JMM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 4 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED	[C] STAFF With Surcharge
1	Staff Adjusted Test Year Revenues	\$ 140,888	\$ 140,888	\$ 140,888
2	Weight Factor	2	2	2
3	Subtotal (Line 1 * Line 2)	281,776	\$ 281,776	\$ 281,776
4	Staff Recommended Revenue, Per Schedule JMM-1	140,888	\$ 166,261	\$ 178,132
5	Subtotal (Line 4 + Line 5)	422,664	448,037	459,908
6	Number of Years	3	3	3
7	Three Year Average (Line 5 / Line 6)	140,888	\$ 149,346	\$ 153,303
8	Department of Revenue Multiplier	2	2	2
9	Revenue Base Value (Line 7 * Line 8)	281,776	\$ 298,692	\$ 306,605
10	Plus: 10% of CWIP -	-	-	-
11	Less: Net Book Value of Licensed Vehicles	94,101	\$ 94,101	\$ 94,101
12	Full Cash Value (Line 9 + Line 10 - Line 11)	187,675	\$ 204,591	\$ 212,504
13	Assessment Ratio	20.5%	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	38,473	\$ 41,941	\$ 43,563
15	Composite Property Tax Rate (Per Company Schedule)	9.1336%	9.1336%	9.1336%
16			\$ -	
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 3,514		
18	Company Proposed Property Tax	5,724		
19				
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (2,210)		
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 3,831	\$ 3,979
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 3,514	\$ 3,831
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 317	\$ 148
24				
25	Increase to Property Tax Expense		\$ 317	
26	Increase in Revenue Requirement		25,373	
27	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.2483%	

Appaloosa Water Company
Docket Nos. W-03443A-11-0040 and W-03443A-10-0143
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Income Tax Expense	\$ -	\$ (2,702)	\$ (2,702)

References:

Column (A), Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule JMM-2

CASH FLOW ANALYSIS

Line No.		Staff Recommended W/O Proposed Loan	Pro Forma With Proposed Loan and Surcharge
1	Cash Inflows		
2	Revenue - Base Rates	\$ 166,261	\$ 166,261
3	Revenue - Surcharge for Principle, Interest and Taxes		\$ 11,870
4	Total Revenue	\$ 166,261	\$ 178,132
	Cash Outflows		
5	Salaries and Wages	\$ 50,769	\$ 50,769
6	Salaries and Wages - Officers and Stockholders	\$ -	\$ -
7	Employee Pensions and Benefits	\$ -	\$ -
8	Purchased Power	\$ 11,788	\$ 11,788
9	Chemicals	\$ -	\$ -
10	Repairs and Maintenance	\$ 8,139	\$ 8,139
11	Office Supplies and Expenses	\$ 2,956	\$ 2,956
12	Outside Services	\$ 11,563	\$ 11,563
13	Water Testing	\$ 1,810	\$ 1,810
14	Outside Services - Other	\$ -	\$ -
15	Rental of Building/Real Property	\$ 6,000	\$ 6,000
16	Transportation Expenses	\$ -	\$ -
17	Insurance	\$ 7,374	\$ 7,374
18	Rate Case Expense	\$ -	\$ -
19	Bad Debt Expense	\$ -	\$ -
20	Miscellaneous Expense	\$ 9,784	\$ 9,784
21	Depreciation Expense	\$ 34,547	\$ 34,547
22	Amortization of CIAC	\$ -	\$ -
23	Taxes Other than Income	\$ 5,558	\$ 5,558
24	Property Taxes	\$ 3,831	\$ 3,979
25	Income Taxes	\$ 2,541	\$ 2,954
26	Deferred Income Taxes	\$ -	\$ -
27	Total Expenses	\$ 156,659	\$ 157,221
28	Operating Income	\$ 9,602	\$ 20,911
29	Plus Depreciation Expense	\$ 34,547	\$ 34,547
30	Less: WIFA Loan Payment Interest	\$ 7,235	\$ 13,022
31	Less: WIFA Loan Payment Principle	\$ 6,901	\$ 12,422
32	Cash Flow from Operations before WIFA Reserve	\$ 30,013	\$ 30,013
33	Provision for AIAC refund	\$ 7,000	\$ 7,000
34	WIFA Reserve (20% of Principal and Interest)	\$ 2,827	\$ 5,089
35	Cash Flow from Operations after WIFA Reserve	<u>\$ 20,186</u>	<u>\$ 17,924</u>

FINANCIAL ANALYSIS

		[A] ¹	[B] ²
		Staff Recommended W/O Proposed Loan	Pro Forma With Proposed Loan
1	Operating Income	\$ 9,602	\$ 20,911
2	Depreciation & Amort.	\$ 34,547	\$ 34,547
3	Income Tax Expense	\$ 2,541	\$ 2,954
4			
5	Interest Expense	\$ 7,235	\$ 13,022
6	Repayment of Principal	\$ 6,901	\$ 12,422
7			
8			
9	DSC		
10	[1+2+3] + [5+6]	3.30	2.30

¹Column [A] is based on Staff's recommended income and includes the effects of the existing \$200,000 WIFA loan.

²Column [B] is Column [A] modified to reflect issuance of a \$160,000, 20-year amortizing loan at 3.675 percent per annum and \$11,870 of surcharge revenue.

CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

Surcharge Inclusive of AWWA Meter Multiplier

Loan Amount		\$ 160,000
Principal & Interest - 20-year WIFA Loan and a 3.675% Interest Rate.		\$ 11,309
Incremental Income and Property Taxes on Surcharge		\$ 562
Total Yearly Surcharge		<u>\$ 11,870</u>
Total Equivalent Annual Bills		4,800
5/8"x 3/4" Meter Surcharge Amount	(\$11,870 / 4,800)	\$ 2.47
3/4" Meter Surcharge Amount	(\$11,870 / 4,800) * 1.5	\$ 3.71
1" Meter Surcharge Amount	(\$11,870 / 4,800) * 2.5	\$ 6.18
1 1/2" Meter Surcharge Amount	(\$11,870 / 4,800) * 5	\$ 12.36
2" Meter Surcharge Amount	(\$11,870 / 4,800) * 8	\$ 19.78
3" Meter Surcharge Amount	(\$11,870 / 4,800) * 16	\$ 39.57
4" Meter Surcharge Amount	(\$11,870 / 4,800) * 25	\$ 61.82
6" Meter Surcharge Amount	(\$11,870 / 4,800) * 50	\$ 123.65

Meter Size	Number of Customers ¹	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	-	1	-	-	\$ 2.47	\$ 29.68	\$ -
3/4" Meter	185	1.5	278	3,330	3.71	\$ 44.51	\$ 8,235
1" Meter	49	2.5	123	1,470	6.18	\$ 74.19	\$ 3,635
1 1/2" Meter	-	5	-	-	12.36	\$ 148.38	\$ -
2" Meter	-	8	-	-	19.78	\$ 237.41	\$ -
3" Meter	-	16	-	-	39.57	\$ 474.81	\$ -
4" Meter	-	25	-	-	61.82	\$ 741.90	\$ -
6" Meter	-	50	-	-	123.65	\$ 1,483.79	\$ -
TOTAL	234		400	4,800			\$ 11,870

¹ As of Test Year.

Monthly Usage Charge	Present	Company Proposed	Staff Recommended
5/8" x 3/4" Meter	\$ 25.00	\$ 50.00	\$ 25.00
3/4" Meter	25.00	50.00	25.00
1" Meter	41.67	83.34	41.67
1 1/2" Meter	83.33	166.66	83.33
2" Meter	133.33	266.66	133.33
3" Meter	266.67	533.40	266.67
4" Meter	416.67	833.34	416.67
6" Meter	833.33	1,666.66	833.33
Gallons included in Minimum	0.00	0.00	0.00
Commodity Charge (Per 1,000 Gallons)			
<u>5/8" x 3/4" Meter and 3/4" Meter (Residential, Industrial & Commercial)</u>			
1 - 3,000 gallons	\$ 1.50	\$ 3.00	N/A
3,001 - 7,000 gallons	2.00	4.00	N/A
Over 7,000 gallons	2.90	5.80	N/A
First 3,000 gallons	N/A	N/A	1.9500
3,001 to 7,000 gallons	N/A	N/A	3.2500
Over 7,000 gallons	N/A	N/A	4.4500
<u>1" Meter (Residential, Industrial & Commercial)</u>			
1 - 7,000 gallons	2.00	4.00	N/A
Over 7,000 gallons	2.90	5.80	N/A
First 7,000 gallons	N/A	N/A	3.2500
Over 7,000 gallons	N/A	N/A	4.4500
<u>1 1/2" Meter (Residential, Industrial & Commercial)</u>			
1 - 15,000 gallons	2.00	4.00	N/A
Over 15,000 gallons	2.90	5.80	N/A
First 15,000 gallons	N/A	N/A	3.2500
Over 15,000 gallons	N/A	N/A	4.4500
<u>2" Meter (Residential, Industrial & Commercial)</u>			
1 - 24,000 gallons	2.00	4.00	N/A
Over 24,000 gallons	2.90	5.80	N/A
First 24,000 gallons	N/A	N/A	3.2500
Over 24,000 gallons	N/A	N/A	4.4500
<u>3" Meter (Residential, Industrial & Commercial)</u>			
1 - 48,000 gallons	2.00	4.00	N/A
Over 48,000 gallons	2.90	5.80	N/A
First 48,000 gallons	N/A	N/A	3.2500
Over 48,000 gallons	N/A	N/A	4.4500

4" Meter (Residential, Industrial & Commercial)

1 - 75,000 gallons	2.00	4.00	N/A
Over 75,000 gallons	2.90	5.80	N/A
First 75,000 gallons	N/A	N/A	3.2500
Over 75,000 gallons	N/A	N/A	4.4500

6" Meter (Residential, Industrial & Commercial)

1 - 150,000 gallons	2.00	4.00	N/A
Over 150,000 gallons	2.90	5.80	N/A
First 150,000 gallons	N/A	N/A	3.2500
Over 150,000 gallons	N/A	N/A	4.4500

Service Charges

Establishment	\$ 25.00	\$ 50.00	\$ 25.00
Establishment (After Hours)	50.00	100.00	N/A
Reconnection (Delinquent)	30.00	60.00	30.00
Reconnection (Delinquent) after hours	50.00	100.00	N/A
Meter Test (If Correct)	15.00	30.00	15.00
Deposit	*	*	*
Deposit Interest	N/A	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	20.00	40.00	20.00
Deferred Payment (Per Annum)	1.5%	1.5%	1.5%
Meter Re-Read (If Correct)	15.00	30.00	15.00
Late Fee (Per Month)	1.5%	1.5%	1.5%
Monthly Service Charge for Fire Sprinkler	***	***	***
After hours service charge	N/A	N/A	50.00

* Per Commission Rules (R14-2-403.B)

** Months off system times the monthly minimum (R14-2-403.D)

*** 2.00 percent of monthly minimum charge for a comparable sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Service Line Charges

			Service Line Charge	Meter Installation	Total Recommend
5/8 x 3/4-inch Meter	\$ 600.00	\$ 1,200.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4-inch Meter	700.00	1,400.00	445.00	255.00	700.00
1-inch Meter	810.00	1,620.00	495.00	315.00	810.00
1 1/2-inch Meter	1,075.00	2,150.00	550.00	525.00	1,075.00
2-inch Turbine Meter	1,875.00	3,750.00	830.00	1,045.00	1,875.00
2-inch Compound Meter	2,720.00	5,440.00	830.00	1,890.00	2,720.00
3-inch Turbine Meter	2,715.00	5,430.00	1,045.00	1,670.00	2,715.00
3-inch Compound Meter	3,710.00	7,420.00	1,165.00	2,545.00	3,710.00
4-inch Turbine Meter	4,160.00	8,320.00	1,490.00	2,670.00	4,160.00
4-inch Compound Meter	5,315.00	10,630.00	1,670.00	3,645.00	5,315.00
6-inch Turbine Meter	7,235.00	14,470.00	2,210.00	5,025.00	7,235.00
6-inch Compound Meter	9,250.00	18,500.00	2,330.00	6,920.00	9,250.00

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,353	\$ 41.42	\$ 82.85	\$ 41.42	100.00%
Median Usage	5,652	34.80	69.61	\$ 34.80	100.00%
Staff Recommended					
Average Usage	8,353	\$ 41.42	\$ 49.87	\$ 8.45	20.39%
Median Usage	5,652	34.80	39.47	\$ 4.67	13.40%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 25.00	\$ 50.00	100.00%	\$ 25.00	0.00%
1,000	26.50	53.00	100.00%	26.95	1.70%
2,000	28.00	56.00	100.00%	28.90	3.21%
3,000	29.50	59.00	100.00%	30.85	4.58%
4,000	31.50	63.00	100.00%	34.10	8.25%
5,000	33.50	67.00	100.00%	37.35	11.49%
6,000	35.50	71.00	100.00%	40.60	14.37%
7,000	37.50	75.00	100.00%	43.85	16.93%
8,000	40.40	80.80	100.00%	48.30	19.55%
9,000	43.30	86.60	100.00%	52.75	21.82%
10,000	46.20	92.40	100.00%	57.20	23.81%
11,000	49.10	98.20	100.00%	61.65	25.56%
12,000	52.00	104.00	100.00%	66.10	27.12%
13,000	54.90	109.80	100.00%	70.55	28.51%
14,000	57.80	115.60	100.00%	75.00	29.76%
15,000	60.70	121.40	100.00%	79.45	30.89%
16,000	63.60	127.20	100.00%	83.90	31.92%
17,000	66.50	133.00	100.00%	88.35	32.86%
18,000	69.40	138.80	100.00%	92.80	33.72%
19,000	72.30	144.60	100.00%	97.25	34.51%
20,000	75.20	150.40	100.00%	101.70	35.24%
25,000	89.70	179.40	100.00%	123.95	38.18%
30,000	104.20	208.40	100.00%	146.20	40.31%
35,000	118.70	237.40	100.00%	168.45	41.91%
40,000	133.20	266.40	100.00%	190.70	43.17%
45,000	147.70	295.40	100.00%	212.95	44.18%
50,000	162.20	324.40	100.00%	235.20	45.01%
75,000	234.70	469.40	100.00%	346.45	47.61%
100,000	307.20	614.40	100.00%	457.70	48.99%

Typical Bill Analysis with Infrastructure Surcharge
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,353	\$ 41.42	\$ 82.85	\$ 41.42	100.00%
Median Usage	5,652	34.80	69.61	\$ 34.80	100.00%
Staff Recommended					
Average Usage	8,353	\$ 41.42	\$ 52.34	\$ 10.92	26.35%
Median Usage	5,652	34.80	41.94	\$ 7.14	20.50%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 25.00	\$ 50.00	100.00%	\$ 27.47	9.88%
1,000	26.50	53.00	100.00%	29.42	11.02%
2,000	28.00	56.00	100.00%	31.37	12.04%
3,000	29.50	59.00	100.00%	33.32	12.95%
4,000	31.50	63.00	100.00%	36.57	16.10%
5,000	33.50	67.00	100.00%	39.82	18.87%
6,000	35.50	71.00	100.00%	43.07	21.32%
7,000	37.50	75.00	100.00%	46.32	23.52%
8,000	40.40	80.80	100.00%	50.77	25.67%
9,000	43.30	86.60	100.00%	55.22	27.53%
10,000	46.20	92.40	100.00%	59.67	29.16%
11,000	49.10	98.20	100.00%	64.12	30.59%
12,000	52.00	104.00	100.00%	68.57	31.87%
13,000	54.90	109.80	100.00%	73.02	33.01%
14,000	57.80	115.60	100.00%	77.47	34.03%
15,000	60.70	121.40	100.00%	81.92	34.96%
16,000	63.60	127.20	100.00%	86.37	35.80%
17,000	66.50	133.00	100.00%	90.82	36.57%
18,000	69.40	138.80	100.00%	95.27	37.28%
19,000	72.30	144.60	100.00%	99.72	37.93%
20,000	75.20	150.40	100.00%	104.17	38.52%
25,000	89.70	179.40	100.00%	126.42	40.94%
30,000	104.20	208.40	100.00%	148.67	42.68%
35,000	118.70	237.40	100.00%	170.92	43.99%
40,000	133.20	266.40	100.00%	193.17	45.02%
45,000	147.70	295.40	100.00%	215.42	45.85%
50,000	162.20	324.40	100.00%	237.67	46.53%
75,000	234.70	469.40	100.00%	348.92	48.67%
100,000	307.20	614.40	100.00%	460.17	49.79%

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF)
APPALOOSA WATER COMPANY FOR)
APPROVAL OF A FINANCING APPLICATION.)

DOCKET NO. W-03443A-10-0143

IN THE MATTER OF THE APPLICATION OF)
APPALOOSA WATER COMPANY FOR)
APPROVAL OF A RATE INCREASE.)

DOCKET NO. W-03443A-11-0040

SURREBUTTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 17, 2012

EXECUTIVE SUMMARY
APPALOOSA WATER COMPANY
DOCKET NOS. W-03443A-10-0143 (FINANCING) &
W-03443A-11-0040 (RATES)

Staff recommends that the Company install a 50,000 gallon storage tank. Staff further recommends that the Company file documentation with Docket Control, as a compliance item in this docket, demonstrating that this 50,000 gallon storage tank has been completed within one year of the effective date of the order in this matter.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Jian W. Liu who filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the Company's rebuttal testimony received on March 27, 2012, regarding the fire flow and peak usage issues. The Company has proposed adding an additional 200,000 gallons of storage capacity.

Based on the water consumption data provided by the Company for the test year ending December 31, 2010, the demand on peak day was 121,083 gallons. The water system has two wells producing a total of 300 gallons per minute ("gpm"), therefore, the total daily source production is 432,000 gallons.

Assuming fire flow requires 120,000 gallons storage, the Company has an existing 65,000 gallons storage tank, and two wells can produce 36,000 gallons in 2 hours. Therefore Staff concludes based on its calculations that the water system only needs an additional 19,000 gallons of storage capacity to meet fire flow requirements.

1 Staff concludes that in order to provide 1,000 gpm for 2 hours and peak day water
2 consumption, 50,000 gallon storage should be added. That is:

3
4 Total Demand (2 hours) = 120,000 gallon fire flow + 31,000 gallon peak water
5 consumption = 151,000 gallons

6 Total Capacity (2 hours) = 65,000 gallon existing + 36,000 gallon producing +
7 50,000 gallon new storage tank = 151,000 gallons
8

9 Staff recommends that the Company install a 50,000 gallon storage tank. Staff further
10 recommends that the Company file documentation with Docket Control, as a compliance
11 item in this docket, demonstrating that this 50,000 gallon storage tank has been completed
12 within one year of the effective date of the order in this matter.
13

14 **Q. Has Staff estimated the cost for a 50,000 gallons storage tank?**

15 A. Staff received a quote from Superior Tank Company (see attached). For \$56,254.00, it
16 will furnish Materials, Equipment, Labor and Insurance to Fabricate, Coat, Deliver and
17 Install one 55,000 Gallons (Nominal) Bolted Steel Storage Tank.
18

19 Staff's estimated other costs for the proposed 50,000 gallons storage tank (including site
20 preparation, engineering, and electric, etc...) are \$43,746.00. Therefore, the total cost is
21 approximately \$100,000.
22

23 **Q. Have you had the opportunity to review the Company's Rebuttal Testimony**
24 **regarding the cost estimate for two Generators each with a Propane Tank?**

25 A. Yes.

1 **Q. Do you have any comments regarding this portion of Company's testimony?**

2 A. Yes. The Company has requested \$120,000 for two Generators each with a Propane Tank.
3 This request equates to a 100 percent increase in cost compared with the Company's
4 original request in its Financing Application dated April 13, 2010. It estimated \$25,000 for
5 each Generator with Propane Tank (plus 20 percent Contingency, the total price \$30,000).
6 Staff in its direct testimony recommended \$60,000 for two Generators each with Propane
7 Tank or one Generator with Propane Tank for each well site. Staff believes that \$30,000
8 per generator with propane tank will provide sufficient funding.

9
10 **Q. Did you attempt to address every issue the Company raised in its rebuttal testimony?**

11 A. No. Staff limited its discussion to the specific issue as outlined above. Staff's lack of
12 response to any issue in this proceeding should not be construed as agreement with the
13 Company's position in its rebuttal testimony; rather where there is no response, Staff
14 relies on its original direct testimony.

15
16 **Q. Does this conclude your surrebuttal testimony?**

17 A. Yes, it does.



9500 Lucas Ranch Road
 Rancho Cucamonga, CA 91730
 P. 909.912.0580 | F. 909.912.0588 | Toll Free. 800.221.TANK

DATE: APRIL 3, 2012
 QUOTE NO: RC-8902-GM
 EMAIL: JLIU@AZCC.GOV
 PHONE: (602) 542-7276

ARIZONA CORP COMMISSION

ATTN: MR. JIAN LIU

RE: BOLTED STEEL STORAGE TANK, CHINO VALLEY, ARIZONA

Superior Tank Co., Inc. is pleased to offer the following quotation for your consideration. To furnish Materials, Equipment, Labor & Insurance to Fabricate, Coat, Deliver and Install the following:

ONE (1) 55,000 Gallons (Nominal), 2 – Rings, 1 In 12 Pitched, Center Pole Supported Steel Cone Roof, Flat Steel Floor, A.W.W.A. D103-09, 100 MPH Windload, 15 PSF Deck Live Load, **Factory Powder Coated**, throughout with **5 mil** average dry film thickness using Dupont "Tank Tan," a Thermal Set **Epoxy Powder Coating** on Tank Interior and Underside of Floor & **3 mil** average dry film thickness using Dupont "Superior Sand," a Thermal Set **TGIC Polyester Powder Coating** on Tank Exterior, **21'-6 1/2" Diameter x 20' High (Nominal), Bolted Steel Storage Tank**, with the following appurtenances:

- 1 – 24" Diameter Shell Manway
- 1 – 24" Square Roof Hatch
- 1 – 20" Screened Roof Vent
- 4 – 4" 150# Flanged Shell Nozzles
- 1 – 20' Section of 6" Pipe (Connect to Existing Tank)
- 1 – Galvanized Exterior Ladder w/ Backguard
- 2 – 3.5' High X 5' Wide, Galvanized Handrails
- 1 – Superior Model #2000, Liquid Level Indicator
- 1 – Set of Calculations & Tank Drawings
- 14 – Anchor Bolt Assemblies (Bolts, Nuts, Plates & Stirrups)
- Lot – 1/2" Fiber Expansion Board (Between Tank & Ringwall)
- 1 – Vacuum Test, Hydrotest & Disinfection

TOTAL SELLING PRICE: (F.O.B. CHINO VALLEY, ARIZONA).....\$56,254.00

HARDWARE: Standard Galvanized Hardware Exterior, Encapsulated Hardware Interior and EDPM gasket used throughout.

CONDITIONS: Superior Tank assumes site is compacted, level and fully accessible for the delivery of materials with forty-eight foot flatbed trucks. Work will be performed in a continuous manner without interruption. **Prevailing wages are not included.** The above erection costs do not take into consideration any restrictive work hour rules, union labor or any special provisions such as safety schooling, safety clothing or hazardous training seminars that may be required.

EXCLUSIONS: Taxes, Permits, Fees, Insulation, Concrete or Gravel Foundation, Grade Band, Transducers, Special Inspections, Prevailing Wages, Level Switch, Process Piping, Over-



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RC-8902-GM

9500 Lucas Ranch Road
Rancho Cucamonga, CA 91730
P. 909.912.0580 | F. 909.912.0588 | Toll Free. 800.221.TANK

Excavation or Recompaction of Existing Soils, Probes, Internal Vortex Breakers, Transmitters, Subgrade, Alarms, Blinds, Flex Coupling, Flap Valves, Freeze Protection, Heater, Heat Tape, Instrumentation, Float Valves or Switches, Downcomers or Supports thereof (Except Where Specified Above), Flex Tends, Valves, Meters, Grading, Gauges, Flap Gates, Water to Hydro-Test or Vacuum Test or Disposal thereof, Bact-T or V.O.C. Tests, Electrical Wiring or Controls thereof, Conduits, Surveying, External or Internal or Below Grade Piping, Fittings, Bonding or Internals **or items not specifically mentioned above.**

QUOTE VALIDITY: 30 DAYS

TERMS: 30% W/ Purchase Order, 50% W/ Delivery of Materials & Balance Due Upon Substantial Completion

DELIVERY TIME: 6 - 8 Weeks (After Drawing Approval, If Required)

Thank you for the opportunity to be of service. If you have any questions or require additional information, please do not hesitate to contact me at your earliest convenience.

Sincerely,

George Marquez
Sales Manager